

**STAFF SUMMARY AND RECOMMENDATION
ALLIANCE FOR COMMUNITY CARE**

Extension of Final Resolution Number F-289

October 31, 2002

ISSUE AMOUNT: \$12,000,000 **ORIGINAL APPROVAL DATE:** April 25, 2002

CREDIT ENHANCEMENT: Cal-Mortgage Insurance, Office of Statewide Health Planning & Development.

EXPECTED RATING: A+ (S&P), based on Cal-Mortgage Insurance.

SENIOR UNDERWRITER: Wells Fargo Institutional Securities, LLC.

TYPE OF FACILITY: Mental health residential treatment facility.

LOCATION: San Jose, California (headquarters)
Santa Clara County

USE OF BOND PROCEEDS: The funds will be used to current refund two separate tax-exempt Series 1992 Cal-Mortgage insured Certificates of Participation (COPs) and an existing taxable mortgage resulting in a net present value savings of \$1.4 million or approximately 12% of the refunded issues.

ISSUE: Alliance for Community Care (Alliance) requests a six month extension of its Final Resolution Number F-289 which expires October 25, 2002. The new expiration date would be April 30, 2003. Resolution F-289 was approved in an amount not to exceed \$12,000,000 subject to a final Cal-Mortgage Insurance commitment.

REASON FOR EXTENSION REQUEST: Alliance requests this extension because it needs additional time to resolve an administrative complaint brought by the Department of Social Services, Community Care Licensing Division (CCL) that involves one of Alliance's facilities, Casa San Antonio, a crisis residential facility operating in San Jose. The nature of this complaint brought by the department could result in a loss of Casa San Antonio's license. As such, Alliance felt it was prudent to delay issuance of bonds until this matter was resolved. A hearing on this issue occurred in July 2002, and was continued by the administrative law judge (ALJ) for additional testimony through October 2002, at which time the hearing is expected to be closed. Thereafter, the ALJ will issue findings and a recommended order no later than December 31, 2002.

Alliance's management anticipates a favorable outcome of the licensing issue for Casa San Antonio. Regardless of the outcome, Alliance still intends to issue the bonds in fiscal 2003, subject to the satisfaction of Cal-Mortgage Insurance.

FINANCIAL UPDATE: For this extension request, Alliance submitted its June 2002 unaudited financial statements.

Alliance remains a financially stable organization. There has been a positive change in Alliance's profitability through fiscal 2002.

Alliance remains a financially stable organization with the current ratio exceeding 2% from fiscal 1999 to fiscal 2002. The proforma debt-to-unrestricted net assets ratio is slightly leveraged at 1.47x, a minor increase from the current position. Alliance's proforma debt service coverage is satisfactory at 1.83x, a significant improvement from fiscal 2002. Given the increase in Alliance's net assets, staff is confident Alliance will be able to meet all of its debt obligations.

Fiscal 2002 revenues include the sale of Alliance's Waverly Street property for \$1.2 million that yielded a profit of \$1.1 million. Apart from this non-recurring sale of assets, revenues increased by roughly 6% in fiscal 2002 over fiscal 2001 largely due to Alliance's success in obtaining new grant funds.

Operating expenses for fiscal 2002 also include a one-time charge for bad debt expenses of \$1,089,785. Alliance implemented cost saving measures in fiscal 2002 and maintained operating expenses at fiscal 2001 levels. Apart from its bad debt expense, which normally average \$200,000 per year, the increase in expenses is not significant.

This proposed current refunding is estimated to result in net present value savings of approximately \$1,446,000 or 12% of the refunded debt. The financial statements are attached as Exhibit A.

Financial Impact of Administrative Complaint

Alliance's management anticipates a favorable outcome of the licensing issue for Casa San Antonio. However, in the event this does not occur and Casa San Antonio loses its license and closes (which at this point, no one anticipates), Alliance will still need to show a strong enough financial position to support this proposed bond issuance prior to a Cal-Mortgage commitment. In addition, should this occur, the Authority would also review the financial impact of the closure. Without the Cal-Mortgage commitment, the Authority will not issue the bonds. Thus, the staff feels it is prudent to provide an extension to Alliance until this administrative complaint is resolved.

LEGAL REVIEW: Staff has reviewed the Applicant's responses to the questions contained in the Legal Status portion of the Application. As discussed above, Alliance responded to the licensing issue complaint, with the Department of Social Services. Resolution of this issue is due by December 31, 2002. No other litigation matters or administrative actions are pending or threatened.

RECOMMENDATION: Staff recommends the Authority approve an extension to Final Resolution Number F-289 for a period of six months, to expire on April 30, 2003, subject to all other provisions and conditions of F-289 remaining unchanged and in full effect.

Financial Statements

Exhibit A-1

ALLIANCE FOR COMMUNITY CARE Statements of Activities (Unrestricted)

	For the year ended June 30			
	2002 (Unaudited)	2001	2000	1999
Unrestricted Revenue:				
Contributions and support	\$ 450,975	\$ 275,389	\$ 422,960	\$ 514,528
Government grants and fees	21,226,896	19,838,627	21,029,574	16,784,580
Fee for services	3,050,239	2,919,376	2,772,383	3,870,005
Interest and dividend income	115,136	255,931	207,666	197,468
Miscellaneous income	1,114,875 (a)	99,030	78,620	80,613
Net assets released from restriction	291,404	329,300	329,300	522,491
Total support and revenue	26,249,525	23,717,653	24,840,503	21,969,685
Expenses:				
Salaries and related expenses	19,140,861	18,509,948	16,979,555	15,296,739
Professional fees	892,445	943,851	1,144,171	1,093,293
Supplies	593,668	728,129	724,389	747,380
Telephone, postage and shipping	353,814	373,702	364,963	340,093
Occupancy	1,362,297	1,374,951	1,188,119	1,131,808
Equipment rent and maintenance	134,137	191,263	232,112	166,383
Travel, transportation and conference	280,045	363,518	468,523	485,220
Interest expense	742,463	777,710	761,307	765,668
Insurance	309,743	267,948	251,813	236,234
Bad debts	1,089,785	144,481	185,613	395,203
Depreciation	725,740	767,748	724,366	671,898
Miscellaneous	260,119	183,595	284,364	410,572
Total expenses	25,885,117	24,626,844	23,309,295	21,740,491
Increase (decrease) in unrestricted net assets	364,408	(909,191)	1,531,208	229,194
Unrestricted net assets, beginning of year	10,114,750	11,023,941	9,492,733	9,263,539
Prior year modification	(1,055,383) (b)	-	-	-
Unrestricted net assets, end of year	\$ 9,423,775	\$10,114,750	\$ 11,023,941	\$ 9,492,733

(a) Includes gain on sale of assets of \$1,102,920.

(b) Prior year modification is reclassification of unrestricted net assets to restricted net assets for the real property contingent liabilities.

ALLIANCE FOR COMMUNITY CARE
Statements of Financial Position

	As of June 30			
	2002 (Unaudited)	2001	2000	1999
Assets				
Current Assets:				
Cash and cash equivalents	\$ 1,010,695	\$ 1,975,056	\$ 2,253,564	\$ 2,011,823
Accounts receivable - net	654,686	1,304,074	917,340	4,172,401
Grants receivable - net	4,462,487	2,790,595	3,977,416	479,143
Investments	2,002,102	1,718,460	1,300,030	1,766,933
Other current assets	618,670	540,982	409,394	464,276
Total Current Assets	8,748,640	8,329,167	8,857,744	8,894,576
Land, buildings and equipment - net	14,721,565	14,881,722	15,413,417	15,345,034
Other assets	1,728,154	1,803,061	1,699,364	313,529
Total Assets	\$ 25,198,359	\$ 25,013,950	\$ 25,970,525	\$ 24,553,139
Liabilities & Net Assets				
Liabilities:				
Accounts payable	\$ 238,689	\$ 161,085	\$ 60,463	\$ 312,353
Accrued expenses	1,902,551	1,844,013	1,790,831	1,763,254
Other current liabilities	140,101	197,247	133,066	67,039
Bonds payable - current	220,000	210,000	200,000	185,000
Notes payable - current	27,571	1,247,828	25,380	31,356
Total current liabilities	2,528,912	3,660,173	2,209,740	2,359,002
Bonds payable	8,527,615	8,742,615	8,952,616	9,151,820
Loan payable	3,077,463	2,190,008	3,194,928	3,220,284
Other liabilities	-	-	250,000	-
Total Liabilities	14,133,990	14,592,796	14,607,284	14,731,106
Net Assets				
Unrestricted net assets	9,423,775	10,114,750	11,023,941	9,492,733
Temporarily restricted net assets	1,640,594	306,404	339,300	329,300
Total Net Assets	11,064,369	10,421,154	11,363,241	9,822,033
Total Liabilities & Net Assets	\$ 25,198,359	\$ 25,013,950	\$ 25,970,525	\$ 24,553,139

Proforma (a)
6/30/02

Debt Service Coverage (x)	1.83	0.63	3.11	1.72
Debt/Unrestricted Net Assets (x)	1.47	1.22	1.12	1.33
Margin (%)		-4.00%	6.00%	1.00%
Current Ratio (x)		2.28	4.01	3.78

(a) Recalculates June 2002 unaudited results to include the impact of this proposed financing.

AMENDMENT AND EXTENSION OF EXPIRATION DATE
OF RESOLUTION TO ISSUE BONDS TO FINANCE

ALLIANCE FOR COMMUNITY CARE

WHEREAS, the California Health Facilities Financing Authority (the "Authority") by its Final Resolution Number F-289 has previously authorized the issuance of revenue bonds in an amount not to exceed \$12,000,000 for Alliance for Community Care.

WHEREAS, Alliance for Community Care has requested that the Authority extend the expiration date of Final Resolution Number F-289 for a period of six months to expire April 30, 2003, and

WHEREAS, the Authority has determined that it is necessary and advisable that the expiration date of the Final Resolution be extended.

NOW, THEREFORE BE IT RESOLVED by the California Health Facilities Financing Authority, as follows:

Section 1. The expiration date of the Final Resolution is hereby extended to April 30, 2003.

Section 2. Except as extended by Section 1 hereof, all provisions and conditions of the Final Resolution shall remain unchanged and in full effect.

Section 3. The officers of the Authority or the duly authorized deputies thereof, are hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all documents which they may deem necessary or advisable in order to consummate the extension of the Resolution and otherwise to effectuate the purposes of this Resolution.

Adopted: October 31, 2002